

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2007 AND 2006

CPAs / ADVISORS



REID HOSPITAL & HEALTH CARE SERVICES, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Reid Hospital & Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated balance sheets of Reid Hospital & Health Care Services, Inc. (the Hospital) as of December 31, 2007 and 2006 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2007 and 2006 and the results of its consolidated operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Blue & Co., LLC

April 11, 2008

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	\$ 9,380,648	\$ 9,359,975
Patient accounts receivable, less allowance for doubtful accounts of \$12,838,000 in 2007 and \$9,018,000 in 2006	35,902,393	37,492,870
Inventories, prepaid expenses and other receivables	5,143,475	4,567,387
Total current assets	50,426,516	51,420,232
Investments		
Board designated - capital replacement Held by trustee	309,598,284	308,436,683
Total investments	15,133	63,144,253
	309,613,417	371,580,936
Property and equipment		
Costs	360,390,398	242,086,327
Less accumulated depreciation	64,857,388	60,385,382
Net property and equipment	295,533,010	181,700,945
Interest in net assets of Foundation	22,632,592	19,299,427
Other assets	12,242,476	22,645,397
Total assets	\$ 690,448,011	\$ 646,646,937

See accompanying notes to consolidated financial statements.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities		
Accounts payable and accrued expenses	\$ 13,515,344	\$ 7,349,240
Salaries, wages and related liabilities	9,657,419 ✓	9,158,936
Estimated third-party payor settlements	600,297 ✓	3,037,769
Total current liabilities	23,773,060	19,545,945
Derivative liability	4,098,173	1,642,148
Long-term debt, less current portion	180,660,000 ✓	180,660,000
Other long-term liabilities	10,045,765	-0-
Total liabilities	218,576,998	201,848,093
Minority Interest	1,216,059	1,185,861
Net assets		
Unrestricted	448,022,362	424,313,556
Temporarily restricted	22,552,602	19,219,437
Permanently restricted	79,990	79,990
Total net assets	470,654,954	443,612,983
Total liabilities and net assets	\$ 690,448,011	\$ 646,646,937

See accompanying notes to consolidated financial statements.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Unrestricted activities		
Net patient care service revenue	\$ 229,050,802	\$ 209,426,305
Other revenues	6,449,051	4,885,187
Total revenues	235,499,853	214,311,492
Expenses		
Salaries, wages and benefits	99,539,475	90,912,180
Professional fees and supplies	54,607,820	46,747,440
Facility costs, depreciation and other	48,110,167	39,690,373
Provision for bad debts	23,141,254	17,997,104
Interest and amortization	507,766	109,818
Total expenses	225,906,482	195,456,915
Net operating income	9,593,371	18,854,577
Nonoperating investment and other income	26,274,803	4,503,868
Net income	35,868,174	23,358,445
Other changes in unrestricted net assets		
Net assets released from restrictions	336,023	46,728,501
Net unrealized gain on investments	9,264,725	14,403,166
Gain (loss) on derivative	(2,456,025)	1,738,921
Change in minimum pension obligation	(12,517,562)	-0-
Effect of adoption of recognition provisions of FAS 158 on defined benefit plans	(7,065,889)	-0-
Minority interest	279,360	(15,939)
Change in unrestricted net assets	23,708,806	86,213,094
Change in temporarily restricted net assets		
Net assets released from restrictions	-0-	(45,774,861)
Change in interest in net assets of Foundation	3,333,165	2,432,755
Change in temporarily restricted net assets	3,333,165	(43,342,106)
Change in net assets	27,041,971	42,870,988
Net assets		
Beginning of year	443,612,983	400,741,995
End of year	\$ 470,654,954	\$ 443,612,983

See accompanying notes to consolidated financial statements.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating activities		
Change in net assets	\$ 27,041,971	\$ 42,870,988
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Change in interest in net assets of Foundation	(3,333,165)	(2,432,755)
Change in minority interest	30,198	15,939
Provision for bad debts	23,141,254	17,997,104
Depreciation and amortization	9,075,095	7,973,072
(Gain) loss on sales of property and equipment	(244,516)	10,546,014
Net realized gain on investments	(13,776,587)	(3,364,127)
Net unrealized gain on investments	(9,264,725)	(14,403,166)
(Gain) loss on derivative	2,456,025	(1,738,921)
Change in minimum pension obligation and adoption of recognition provisions of FAS 158	19,583,451	-0-
Changes in operating assets and liabilities		
Patient accounts receivable	(21,550,777)	(28,188,886)
Inventories, prepaid expenses and other receivables	(576,088)	(1,051,817)
Other assets and long-term liabilities	865,235	(10,692,753)
Accounts payable and accrued expenses	1,211,670	(3,745,430)
Salaries, wages and related liabilities	498,483	1,117,333
Estimated third-party payor settlements	(2,437,472)	1,715,761
Net cash flows from operating activities	32,720,052	16,618,356
Investing activities		
Purchase of property and equipment	(118,188,953)	(90,198,705)
Proceeds from sales of property and equipment	480,743	3,350,000
Purchases of investments	(80,652,566)	(59,965,578)
Sales of investments	165,661,397	131,178,100
Net cash flows from investing activities	(32,699,379)	(15,636,183)
Change in cash and cash equivalents	20,673	982,173
Cash and cash equivalents		
Beginning of year	9,359,975	8,377,802
End of year	\$ 9,380,648	\$ 9,359,975

See accompanying notes to consolidated financial statements.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Reid Hospital & Health Care Services, Inc. (the Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides inpatient, outpatient, emergency, acute care and hospice services to individuals who reside primarily in a seven county area, including Preble and Darke counties in Ohio and Wayne, Fayette, Randolph, Henry and Union counties in Indiana. Admitting physicians are primarily practitioners in the local area.

Only those activities associated with providing health care services are considered to be operating activities. Other unrestricted activities are considered to be nonoperating and principally represent investment income (including realized gains and losses on investments). In addition, fund raising activities are provided by Reid Hospital & Health Care Services Foundation, Inc. (the Foundation), a not-for-profit corporation related to the Hospital. The Foundation maintains control of funds raised and determines the distributions, if any, to the Hospital. The accompanying consolidated financial statements do not include the Foundation except as discussed in Note 2.

The Hospital maintains a controlling interest in Reid MOB, LLC (Reid MOB). The purpose of Reid MOB is to own, operate and serve as landlord for a medical office building and outpatient care center located on the new campus of Reid Hospital & Health Care Services, Inc. During 2007, the medical office building and outpatient care center was complete and placed in service. Reid MOB is consolidated with the Hospital for financial reporting purposes.

The Hospital holds an equity ownership interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE). ROSE was formed and substantially capitalized during 2007. Prior to the formation of ROSE, the Hospital held an equity ownership interest in Eastern Indiana Center for Ambulatory Surgery, LLC (EICAS). During 2007, EICAS liquidated and the capital transferred to ROSE.

The Hospital recorded an investment in ROSE of \$4,633,924 as of December 31, 2007 and an investment in EICAS of \$2,207,617 as of December 31, 2006.

The Hospital holds an equity ownership interest in Reid-ANC Home Care Services, LLC. The Hospital recorded an investment in this organization of \$335,060 and \$312,344 as of December 31, 2007 and 2006, respectively.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiary, Reid MOB. All material inter-company accounts and transactions have been eliminated in consolidation. Investments in organizations where the Hospital's ownership percentage is 50% or less are accounted for under the equity method and are included with other assets on the consolidated balance sheets. The Hospital's portion of income is reported with nonoperating investment and other income and was approximately \$3,125,000 and \$2,667,000 for the years ended December 31, 2007 and 2006, respectively.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Charity Care and Community Benefit

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the Hospital. These policies define charity services as those services for which no, or a limited payment, is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are not reported as revenues. The Hospital maintains records to identify and monitor the level of charity care provided, including the amount of charges foregone for services and supplies furnished.

The Hospital also provides unreimbursed services to the community which include free or low cost health screenings, educational programs and information, and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at substantial discounts off established rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling, and the application to the Medicare and Medicaid programs for health service coverage. The cost of these programs and services are included in expenses.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Statements of Cash Flows

Cash equivalents include investments in highly liquid financial instruments with a maturity of three months or less when purchased. The Hospital routinely invests certain of its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid US Government and agency obligations. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Cash paid for interest, net of amount capitalized was \$507,766 and \$109,818 in 2007 and 2006, respectively. Interest expense capitalized was approximately \$7,457,000 and \$5,938,000 for 2007 and 2006, respectively. Investment income capitalized was approximately \$852,000 and \$3,891,000 for 2007 and 2006, respectively. Noncash investing activities included property and equipment in accounts payable of approximately \$4,955,000 and \$1,434,000 as of December 31, 2007 and 2006, respectively.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Care Service Revenue

Patient accounts receivable and net patient care service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers) and others for services rendered. Components of gross patient accounts receivable as of December 31, 2007 and 2006, respectively, include Medicare 32% and 38%, Medicaid 10% and 8%, commercial insurance 37% and 38% and other, primarily self pay, 21% and 16%.

A provision is made for estimated retroactive adjustments under reimbursement agreements with third-party payors (principally for the Medicare and Medicaid programs) and is included in net patient care service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Inventories

Inventories are valued at the lower of cost or market using the first-in, first-out method.

Investments

Investments are stated at fair value. Dividends, interest income and realized gains and losses on sales of investments are recorded as nonoperating investment income. Unrealized gains (losses) on investments are reported as other changes in net assets in the consolidated statements of operations and changes in net assets.

Investments consist of short-term investments (principally money market mutual funds), guaranteed investment contracts, US Government and government agency obligations, corporate bonds, marketable equity securities and mutual funds. The underlying investments in mutual funds consist of marketable debt and equity securities. Fair values for investments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Hospital invests in certain private equity investment funds which include hedge funds (which are a fund of funds) and limited partnerships. The Hospital utilizes hedge funds to reduce (hedge) the investment risk associated with debt and equity securities and to diversify the investment portfolio in accordance with the Board approved investment policy. Hedge funds may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to the same regulatory requirements as mutual funds. The hedge funds are carried at fair value as estimated by professional investment managers. The estimated fair value may differ significantly from the values that would have been used had a ready market for the investments existed and the difference could be material.

The limited partnerships are invested in certain ventures including hedge funds and real estate with various strategies including venture capital, real estate holdings, distressed and mezzanine debt, and buyout strategies. Investments in those limited partnerships are reported at fair value as determined by the individual manager of each partnership. Although the manager uses its best judgment in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore the values presented herein are not necessarily indicative of the amount that the investments funds could realize in a current transaction. These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Gains and losses for private market investments are recorded in net unrealized gain/loss on investments in the consolidated statements of operations and changes in net assets. Gains were recorded in the amounts of approximately \$12,108,000 and \$3,794,000 for 2007 and 2006, respectively.

Substantially all of the investments have been designated by the Board of Directors for capital replacement, building projects and retirement of debt. These investments are managed by professional investment managers in accordance with investment policies of the Hospital, are held at a commercial bank and, at the Board's discretion, can be designated for other purposes.

Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Depreciation is provided using the straight-line half year method over the expected useful lives of the various asset classifications which range from 3 to 40 years.

Pension Plan

Eligible employees participate in a noncontributory defined benefit pension plan. Benefits are based on years of service and average compensation (as defined) prior to retirement. Contributions to the plan include amortization of prior service costs, plus interest thereon over approximately sixteen years and are funded currently. The amount of funding has been subject to limitations pursuant to applicable federal regulations.

Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of debt are amortized over the term of the related debt using the straight-line method.

Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, investments, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses and estimated third-party payor settlements approximate fair value. Management's estimate of the fair value of investments and long-term debt is described in the notes to the consolidated financial statements.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective October 1, 2003, the Hospital became a member in a Vermont captive insurance company, Indiana Healthcare Reciprocal Risk Retention Group, to fund the Hospital's required portion of the professional, physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$15,000,000 each occurrence, \$15,000,000 aggregate per member and \$30,000,000 total policy aggregate.

Advertising and Community Service Costs

Advertising and community service costs are expensed as incurred. Total expense for 2007 and 2006 was approximately \$1,531,911 and \$1,179,710, respectively.

Net Operating Income

"Net operating income," as reflected in the consolidated statements of operations and changes in net assets, reflects the excess of revenue over expenses exclusive of investments return which, in the opinion of management, is not part of the Hospital's patient care activities. "Net income" represents net operating income, investment return and other nonoperating income. Consistent with industry practice, net unrealized gains and losses on appreciation of investments are excluded from net income.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Net Assets

All resources that are not restricted by donors are included in unrestricted net assets. Donor restricted contributions are recorded as temporarily restricted. When the donor restriction expires, either through passage of time or the purpose for restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported with other revenue in the consolidated statement of operations and changes in net assets.

Minimum Revenue Guarantees

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ended before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically one to three years.

Reclassification

Certain 2006 amounts in the consolidated financial statements have been reclassified to conform to the 2007 presentation. The effect of these reclassifications had no effect on previously-reported net income or net assets.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

2. INTEREST IN NET ASSETS OF FOUNDATION

Statement of Financial Accounting Standards No. 136, (SFAS 136), entitled "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others," requires that a specified beneficiary (the Hospital) recognize its rights to the assets held by a recipient organization (the Foundation) as an asset unless the donor has explicitly granted the recipient organization variance power. Those rights are an interest in the net assets of the recipient organization, a beneficial interest or a receivable. Based on the criteria, the Hospital and Foundation are financially interrelated organizations. The Hospital recorded an interest in the net assets of the Foundation of \$22,632,592 and \$19,299,427 as of December 31, 2007 and 2006, respectively.

The Foundation made grants to the Hospital of \$336,023 and \$953,640 for various healthcare related projects in 2007 and 2006, respectively. During 2006, the Hospital satisfied the Foundation's restrictions related to prior Foundation contributions of \$45,774,861 for the construction of a new healthcare facility. This amount was released from temporarily restricted net assets during 2006.

3. NET PATIENT CARE SERVICE REVENUE

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Inpatient acute care services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic and other factors. Hospital outpatient services are paid at prospectively determined rates based on actual procedures performed. Inpatient nonacute care services and select outpatient services are paid based on modified cost reimbursement methodologies.
- Medicaid: Substantially all Medicaid services are paid at prospectively determined rates.
- Other: Reimbursement for services from other payors, principally insurers, is generally at established rates for covered charges.

To the extent that services to Medicare and Medicaid program beneficiaries are reimbursed based on modified cost reimbursement methodologies, final settlement is determined after submission of annual cost reports and audits thereof by the fiscal intermediary. Final settlements of all Medicare and Medicaid costs reports through December 31, 2005 have been recorded.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. Settlements related to prior year cost reports resulted in an increase to net patient service revenue of approximately \$16,000 and \$793,000 in 2007 and 2006, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

A reconciliation of the amount of services provided to patients at established rates to net patient care service revenue as presented in the consolidated statements of operations and changes in net assets is as follows:

	2007	2006
Revenue		
Inpatient	\$ 192,114,885	\$ 174,591,095
Outpatient	190,893,146	173,219,487
Home health	4,725,006	3,924,237
Acute rehab care	4,635,247	4,621,001
Geropsychiatric services	3,126,226	3,455,729
Charity care revenue foregone	(6,672,083)	(6,312,735)
	388,822,427	353,498,814
Less contractual allowances	159,771,625	144,072,509
Net patient care service revenue	<u>\$ 229,050,802</u>	<u>\$ 209,426,305</u>

A summary of gross patient service revenue by payor is as follows:

	2007	2006
Medicare	53%	53%
Medicaid	8%	9%
Commercial insurers and managed care providers	32%	32%
Self-pay patients	7%	6%
	<u>100%</u>	<u>100%</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

4. FUNCTIONAL EXPENSES

The Hospital provides acute and nonacute health care services on an inpatient, outpatient, senior behavioral services and emergency basis. Expenses directly related to providing these services were approximately \$187,521,000 and \$162,229,000 in 2007 and 2006, respectively. Administrative and general expenses approximated \$38,385,000 and \$33,228,000 in 2007 and 2006, respectively.

5. INVESTMENTS

Investments reported as current assets are those that the Hospital has made available for use in operations within the next twelve months. Investments that are required for obligations classified as current liabilities are also reported in current assets. Investments at fair value consist of the following as of December 31:

	2007	2006
Cash and cash equivalents	\$ 27,540,507	\$ 4,998,677
Marketable equity securities	6,272,016	20,823,466
Mutual funds - equity	130,548,055	100,648,763
Mutual funds - fixed income	74,091,933	51,453,477
Guaranteed investment contracts	-0-	141,386,807
Private market investments	71,160,906	52,269,746
	<u>\$ 309,613,417</u>	<u>\$ 371,580,936</u>

The composition of investment return for unrestricted activities included in the consolidated statements of operations and changes in net assets is as follows:

	2007	2006
Investment income		
Dividends and interest income	\$ 12,253,700	\$ 11,685,755
Realized gain, net	13,776,587	3,364,127
	<u>26,030,287</u>	<u>15,049,882</u>
Other changes in net assets		
Net unrealized gain on investments	9,264,725	14,403,166
	<u>\$ 35,295,012</u>	<u>\$ 29,453,048</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Trustee held funds include proceeds from long-term debt restricted for building projects and amounts for the deposits that are required to be made to trustee-held debt service funds by terms of the various loan agreements for payment of principal and interest. As of December 31, 2007 and 2006, \$15,133 and \$63,144,253, of trustee-held assets were included in investments.

The following schedule summarizes the fair value of securities included in investments by board designated and held by trustee that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of December 31, 2007 and 2006. The schedule further segregates the securities that have been in a gross unrealized position as of December 31, 2007 and 2006, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in 2007. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of December 31, 2007 and 2006:

Description of Securities	December 31, 2007					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	\$ 1,792,994	\$ (664,891)	\$ 209,851	\$ (79,619)	\$ 2,002,845	\$ (744,510)
Mutual funds - equities	19,528,595	(1,570,422)	-0-	-0-	19,528,595	(1,570,422)
Mutual funds - fixed income	8,434,905	(71,890)	31,731,583	(978,648)	40,166,488	(1,050,538)
Total temporarily impaired securities	<u>\$ 29,756,494</u>	<u>\$ (2,307,203)</u>	<u>\$ 31,941,434</u>	<u>\$ (1,058,267)</u>	<u>\$ 61,697,928</u>	<u>\$ (3,365,470)</u>

Description of Securities	December 31, 2006					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	\$ 361,891	\$ (219,700)	\$ 1,274,396	\$ (457,184)	\$ 1,636,287	\$ (676,884)
Mutual funds - equities	6,280,319	(311,503)	-0-	-0-	6,280,319	(311,503)
Mutual funds - fixed income	-0-	-0-	44,780,396	(1,417,800)	44,780,396	(1,417,800)
Total temporarily impaired securities	<u>\$ 6,642,210</u>	<u>\$ (531,203)</u>	<u>\$ 46,054,792</u>	<u>\$ (1,874,984)</u>	<u>\$ 52,697,002</u>	<u>\$ (2,406,187)</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

6. PROPERTY AND EQUIPMENT

Costs of property and equipment are summarized as follows as of December 31:

	2007	2006
Land and land improvements	\$ 9,435,664	\$ 9,295,168
Buildings and improvements	11,280,718	6,625,517
Building equipment	13,928,734	3,628,602
Moveable equipment	89,477,575	75,757,281
Construction in progress	236,267,707	146,779,759
	<u>\$ 360,390,398</u>	<u>\$ 242,086,327</u>

Depreciation expense for 2007 and 2006 approximated \$9,075,000 and \$7,973,000, respectively.

During 2006, the Hospital sold the land and building on its main campus in anticipation of the move to a replacement hospital known as The New Reid, which is currently under construction. The sale resulted in a loss of approximately \$9,730,000 in 2006 which is reported in nonoperating investment and other income on the consolidated statements of operations and changes in net assets.

The Hospital is leasing the facility back from the purchaser for amounts ranging from approximately \$43,000 per month up to \$64,000 per month through March 2009 or until the move to The New Reid is complete. The lease can be renewed periodically as the transition to The New Reid dictates.

7. NONOPERATING INVESTMENT AND OTHER INCOME

The detail for nonoperating investment and other income is comprised of the following for 2007 and 2006:

	2007	2006
Investment income	\$ 26,030,287	\$ 15,049,882
Gain (loss) on sale of property and equipment	244,516	(816,272)
Loss on sale of land and building	-0-	(9,729,742)
	<u>\$ 26,274,803</u>	<u>\$ 4,503,868</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

8. LONG-TERM DEBT

Long-term debt consists mainly of tax-exempt revenue bonds as of December 31:

	2007	2006
Hospital Authority of Richmond, Indiana Hospital Revenue Bonds, Series 2005A, VRDO Serial bonds, payable in annual principal installments through 2040, in amounts ranging from \$1,770,000 to \$3,990,000. Variable interest (payable monthly) at 3.545% as of December 31, 2007.	\$ 87,500,000	\$ 87,500,000
Hospital Authority of Richmond, Indiana Hospital Revenue Bonds, Series 2005B, 7 day ARS Serial bonds, payable in annual principal installments through 2045, in amounts ranging from \$675,000 to \$1,875,000. Variable interest (payable monthly) at 3.37% as of December 31, 2007.	43,750,000	43,750,000
Hospital Authority of Richmond, Indiana Hospital Revenue Bonds, Series 2005C, 7 day ARS Serial bonds, payable in annual principal installments through 2045, in amounts ranging from \$675,000 to \$1,875,000. Variable interest (payable monthly) at 3.37% as of December 31, 2007.	43,750,000	43,750,000
Hospital Authority of Richmond, Indiana Subordinated Revenue Bonds, Series 2005 Balloon payment due in 2025. Fixed interest rate of 11%.	5,660,000	5,660,000
	<u>\$ 180,660,000</u>	<u>\$ 180,660,000</u>

In April 2005, the Hospital entered into debt agreements for the Hospital Revenue Bonds, Series 2005A, 2005B and 2005C. The proceeds along with other funds are being used to construct and equip The New Reid.

The Series 2005A, 2005B and 2005C bonds are insured through a municipal bond insurance policy issued by Financial Security Assurance for an amount not to exceed \$175,000,000. Additionally, the Hospital has an available letter of credit for \$87,500,000 with a bank for the Series 2005A, Variable Rate Demand Obligation serial bonds. The letter of credit is intended to provide credit enhancement and liquidity support for the Hospital's tax-exempt bonds. Advances bear interest at the bank's prime rate. The line is collateralized by the Hospital's gross revenues as well as designated assets. The letter of credit expires in April 2010. There was no balance outstanding as of December 31, 2007 and 2006.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

In March 2005, the Hospital entered into another debt agreement for the Subordinated Revenue Bonds, Series 2005. The proceeds along with other funds are being used to construct and equip a diagnostic medical imaging center on the campus of The New Reid. The bonds bear interest at a fixed rate of 11% with a balloon payment of \$5,660,000 due in 2025. The bonds are secured by interest in the diagnostic center pledged revenues and equipment.

Pursuant to the Master Trust Indenture, the Hospital has covenanted not to incur indebtedness secured by an encumbrance on, or mortgage of, its facilities except under certain circumstances. In addition, the various agreements require maintenance of certain debt service coverage ratios, limit additional borrowing and require compliance with various other restrictive covenants. The Hospital believes it is in compliance with all covenants as of December 31, 2007.

Maturities of long-term debt for the years succeeding December 31, 2007 are as follows:

Year Ending December 31,	
2008	\$ -0-
2009	3,120,000
2010	3,240,000
2011	3,325,000
2012	3,385,000
Thereafter	167,590,000
	<u>\$ 180,660,000</u>

The fair value of the fixed rate Subordinated Revenue Bonds, Series 2005 as of December 31, 2007 and 2006 approximated \$11,648,000 and \$11,321,000, respectively; (carrying value of \$5,660,000). The fair value of the fixed rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable rate debt (Series 2005A, 2005B and 2005C) approximates its carrying value.

The Hospital has commitments remaining on construction contracts of approximately \$22,184,000 as of December 31, 2007.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

9. DERIVATIVE LIABILITY

In 2005, the Hospital entered into two "cash flow hedge interest rate swap" agreements with a financial institution for the Hospital Revenue Bonds, Series 2005B and Series 2005C. The Hospital pays a fixed interest rate on each swap agreement (3.70% at December 31, 2007 and 2006) and the financial institution pays a variable interest rate (3.37% and 3.625% as of December 31, 2007 and 2006) over the term of the agreements.

The Hospital's objective is to provide protection against market driven increases in variable interest rates. The fair value of the agreement was determined by the financial institution using the present value of the estimated projected cash flows. The Hospital is in a liability position as of December 31, 2007 and 2006 due to the present value of its estimated projected cash flows being greater than the financial institution's present value of estimated projected cash flows.

The swaps were effective on April 20, 2005, mature on January 1, 2045, contain an aggregate outstanding notional amount of \$87,500,000 with a 3.70% fixed rate of interest and are a derivative liability for the Hospital with a fair value as of December 31, 2007 and 2006 of \$4,098,173 and \$1,642,148, respectively. The Hospital recognized a loss on the derivative of \$2,456,025 in 2007 and a gain of \$1,738,921 in 2006.

10. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2007 and 2006:

	2007	2006
Interest in net assets of Foundation	<u>\$ 22,552,602</u>	<u>\$ 19,219,437</u>

Permanently restricted net assets consist of the following as of December 31, 2007 and 2006:

	2007	2006
Interest in net assets of Foundation	<u>\$ 79,990</u>	<u>\$ 79,990</u>

Net assets released from restrictions amounted to \$336,023 and \$46,728,501 for 2007 and 2006, respectively.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital leases equipment under various cancelable and noncancelable operating leases. The leases expire in varying periods through 2017. Total lease expense was \$3,771,173 for 2007 and \$2,067,148 for 2006.

Minimum annual lease payments under noncancelable leases for the years after December 31, 2007 are as follows:

<u>Year Ending December 31,</u>	
2008	\$ 3,695,000
2009	3,119,000
2010	3,083,000
2011	3,067,814
2012	2,996,383
Thereafter	12,810,116
	<u>\$ 28,771,313</u>

The Hospital leases space in its Medical Office Building and Outpatient Care Center under agreements that expire at various times throughout 2017. The expected rental revenue for the years after December 31, 2007 is as follows:

<u>Year Ending December 31,</u>	
2008	\$ 2,743,000
2009	2,770,000
2010	2,797,000
2011	2,824,000
2012	2,853,000
Thereafter	14,697,000
	<u>\$ 28,684,000</u>

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

12. PENSION PLAN AND POSTRETIREMENT BENEFIT PLANS

The Hospital has a defined benefit pension plan covering substantially all of its employees. The plan benefits are based on years of service and the employees' compensation during the years of covered employment as defined by the plan agreement. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The Hospital also sponsors a defined benefit postretirement plan providing medical and dental benefits to eligible retired employees and their spouses. The postretirement plan is contributory, with retiree contributions adjusted annually.

On December 31, 2007, the Hospital adopted the recognition provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158), which requires the Hospital to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the plans in its consolidated balance sheet.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The following tables set forth the changes in benefit obligations, changes in plan assets and funded status of the defined benefit plans and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2007 and 2006:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Changes in benefit obligation				
Benefit obligation, beginning of year	\$ 32,948,594	\$ 29,878,183	\$ 838,595	\$ 687,190
Service cost	2,360,534	2,113,584	43,526	39,878
Interest cost	2,609,005	2,374,938	64,653	53,484
Benefits paid	(190,533)	(3,031,220)	(62,051)	(38,022)
Actuarial (gain) loss	13,707,691	1,613,109	134,490	96,065
Effect of settlement	(5,605,446)	-0-	-0-	-0-
Benefit obligation, end of year	<u>\$ 45,829,845</u>	<u>\$ 32,948,594</u>	<u>\$ 1,019,213</u>	<u>\$ 838,595</u>
Changes in plan assets				
Fair value of plan assets, beginning of year	\$ 39,879,868	\$ 26,677,203	\$ -0-	\$ -0-
Actual return on plan assets	3,230,250	3,733,885	-0-	-0-
Employer contributions	-0-	12,500,000	62,051	38,022
Benefits paid	(190,533)	(3,031,220)	(62,051)	(38,022)
Settlement	(6,116,292)	-0-	-0-	-0-
Fair value of plan assets, end of year	<u>\$ 36,803,293</u>	<u>\$ 39,879,868</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Funded status of the plan	<u>\$ (9,026,552)</u>	<u>\$ 6,931,274</u>	<u>\$ (1,019,213)</u>	<u>\$ (838,595)</u>
Amounts recognized in the consolidated balance sheets consist of				
Other assets	\$ -0-	\$ 14,150,012	\$ -0-	\$ -0-
Other long-term liabilities	(9,026,552)	-0-	(1,019,213)	(344,799)
	<u>\$ (9,026,552)</u>	<u>\$ 14,150,012</u>	<u>\$ (1,019,213)</u>	<u>\$ (344,799)</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Pension disclosures related to the adoption of FAS 158 as of and for the year ended December 31, 2007 include:

	2007 Pension Benefits	2007 Postretirement Benefits
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	\$ -0-	\$ (228,100)
Prior service cost	(119,652)	-0-
Accumulated loss	(18,864,698)	(371,001)
Other changes in unrestricted net assets	(18,984,350)	(599,101)
Cumulative employer contributions in excess of net periodic pension cost	9,957,798	(420,112)
Net amount recognized in the consolidated balance sheets (after FAS 158)	<u>\$ (9,026,552)</u>	<u>\$ (1,019,213)</u>
Changes in unrestricted net assets due to application of FAS 158		
Additional minimum liability before FAS 158	\$ (12,637,214)	\$ -0-
Intangible asset offset before FAS 158	119,652	-0-
Other changes in unrestricted net assets before FAS 158	(12,517,562)	-0-
Change in unrestricted net assets due to application of FAS 158	(6,466,788)	(599,101)
Other changes in unrestricted net assets	<u>\$ (18,984,350)</u>	<u>\$ (599,101)</u>
Estimated amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	\$ -0-	\$ (19,008)
Amortization of prior service (cost) credit	\$ (46,117)	\$ -0-
Amortization of loss	\$ (1,020,122)	\$ (16,817)

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The components of net periodic benefit cost and the weighted average actuarial assumptions are as follows:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Components of net periodic benefit cost				
Service cost	\$ 2,360,534	\$ 2,113,584	\$ 43,526	\$ 39,878
Interest cost	2,609,005	2,374,938	64,653	53,484
Expected return on plan assets	(3,558,945)	(2,946,217)	-0-	-0-
Amortization of prior year service cost	46,117	113,940	-0-	-0-
Amortization of loss	218,927	249,208	-0-	-0-
Settlement cost	2,516,576	-0-	-0-	-0-
Recognized actuarial loss	-0-	-0-	10,177	5,460
Recognition of transition obligation	-0-	-0-	19,008	19,008
Net periodic benefit cost	<u>\$ 4,192,214</u>	<u>\$ 1,905,453</u>	<u>\$ 137,364</u>	<u>\$ 117,830</u>

Weighted-average actuarial assumptions
as of December 31 are

Discount rate	6.25%	8.0%	8.0%	8.0%
Expected return on plan assets	9.0%	9.0%	na	na
Rate of compensation increase	3.0%	3.0%	na	na
Health care trend rate - initial	na	na	11.0%	12.0%
Health care trend rate - ultimate	na	na	5.00%	5.00%
Years to ultimate	na	na	8 years	8 years

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the postretirement plan:

	1% Increase	1% Decrease
Effect of total service cost and interest cost components	\$ 11,889	\$ (10,319)
Effect on postretirement benefit obligation	\$ 92,130	\$ (80,743)

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The following is a schedule by year of expected benefit payments as of December 31, 2007:

Year Ending December 31,	Pension Benefits	Postretirement Benefits
2008	\$ 584,774	\$ 68,553
2009	772,476	79,644
2010	986,606	77,680
2011	1,183,913	73,618
2012	1,488,870	78,748
2013-2017	12,864,539	513,522
	<u>\$ 17,881,178</u>	<u>\$ 891,765</u>

Determination of net periodic pension cost for the years ended December 31, 2007 and 2006 is based on assumptions and census dated as of January 1, 2007 and 2006, respectively. The measurement date for the postretirement plan is as of December 31, 2007 and 2006.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The pension plan allocation includes growth assets (equity securities, real estate and other investments - 70%) and fixed income (debt securities - 30%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the pension plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

As permitted under Paragraph 26 of SFAS 87, *Employer's Accounting for Pensions*, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the pension plan.

The pension plan's weighted average, asset allocations as of December 31, 2007 and 2006, by asset category are as follows:

Category of investment assets	2007	2006
Equity securities	71%	73%
Debt securities	26%	25%
Real estate	2%	1%
Other	1%	1%
	<u>100%</u>	<u>100%</u>

REID HOSPITAL & HEALTH CARE SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The allocation strategy for the pension plan currently targets equity securities of 62.5%, debt securities of 22.5% and other investments of 15%. The pension plan asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 62.5% of the Hospital's pension plan asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in US and international companies.

The Hospital expects to contribute approximately \$1,800,000 to its pension plan and postretirement plan during 2008.

13. RELATED PARTY TRANSACTIONS

Certain officers or members of the Hospital's board of directors are members of the board of directors of the Foundation. The Foundation's net assets increased by \$3,333,165 in 2007 and \$2,432,755 in 2006. Contributions to the Hospital for general programs amounted to \$336,023 and \$953,640 for 2007 and 2006, respectively, and were used for acquisition of property and equipment and certain donor-imposed purposes as designated by the Foundation.

Total assets (consisting primarily of investments) of the Foundation as of December 31, 2007 and 2006, respectively, aggregated approximately \$22,633,000 and \$19,299,000.

Total net assets of the Foundation as of December 31, 2007 and 2006, respectively, aggregated approximately \$22,633,000 and \$19,299,000. As discussed in prior notes to the consolidated financial statements, the Hospital has recorded an interest in the net assets of the Foundation as of December 31, 2007 and 2006.

SUPPLEMENTARY INFORMATION

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2007

ASSETS				
	Hospital	Reid MOB	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 6,603,674	\$ 2,776,974	\$ -0-	\$ 9,380,648
Patient accounts receivable, net	35,902,393	-0-	-0-	35,902,393
Inventories, prepaid expenses and other receivables	4,952,996	190,479	-0-	5,143,475
Total current assets	47,459,063	2,967,453	-0-	50,426,516
Investments				
Board designated - capital replacement and improvement	309,598,284	-0-	-0-	309,598,284
Held by trustee	15,133	-0-	-0-	15,133
Total investments	309,613,417	-0-	-0-	309,613,417
Property and equipment				
Costs	329,564,289	32,606,776	(1,780,667)	360,390,398
Less accumulated depreciation	64,457,388	400,000	-0-	64,857,388
Net property and equipment	265,106,901	32,206,776	(1,780,667)	295,533,010
Interest in net assets of Foundation	22,632,592	-0-	-0-	22,632,592
Other assets	44,877,656	-0-	(32,635,180)	12,242,476
Total assets	\$ 689,689,629	\$ 35,174,229	\$ (34,415,847)	\$ 690,448,011
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 12,192,354	\$ 2,275,939	\$ (952,949)	\$ 13,515,344
Salaries, wages and related liabilities	9,657,419	-0-	-0-	9,657,419
Estimated third-party payor settlements	600,297	-0-	-0-	600,297
Total current liabilities	22,450,070	2,275,939	(952,949)	23,773,060
Derivative liability	4,098,173	-0-	-0-	4,098,173
Long-term debt, less current portion	180,660,000	30,603,847	(30,603,847)	180,660,000
Other long-term liabilities	10,045,765	-0-	-0-	10,045,765
Total liabilities	217,254,008	32,879,786	(31,556,796)	218,576,998
Minority interest	-0-	-0-	1,216,059	1,216,059
Net assets				
Unrestricted	449,803,029	2,294,443	(4,075,110)	448,022,362
Temporarily restricted	22,552,602	-0-	-0-	22,552,602
Permanently restricted	79,990	-0-	-0-	79,990
Total net assets	472,435,621	2,294,443	(4,075,110)	470,654,954
Total liabilities and net assets	\$ 689,689,629	\$ 35,174,229	\$ (34,415,847)	\$ 690,448,011

See report of independent auditors on page 1.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	Reid MOB	Eliminations	Total
Unrestricted activities				
Net patient care service revenue	\$ 229,050,802	\$ -0-	\$ -0-	\$ 229,050,802
Other revenues	5,774,803	2,133,571	(1,459,323)	6,449,051
Total revenues	234,825,605	2,133,571	(1,459,323)	235,499,853
Expenses				
Salaries, wages and benefits	99,539,475	-0-	-0-	99,539,475
Professional fees and supplies	54,582,356	25,464	-0-	54,607,820
Facility costs, depreciation and other	47,905,499	1,663,991	(1,459,323)	48,110,167
Provision for bad debts	23,141,254	-0-	-0-	23,141,254
Interest and amortization	507,766	1,017,885	(1,017,885)	507,766
Total expenses	225,676,350	2,707,340	(2,477,208)	225,906,482
Net operating income (loss)	9,149,255	(573,769)	1,017,885	9,593,371
Nonoperating investment and other income	27,893,088	46,674	(1,664,959)	26,274,803
Net income (loss)	37,042,343	(527,095)	(647,074)	35,868,174
Other changes in unrestricted net assets				
Net assets released from restrictions	336,023	-0-	-0-	336,023
Net unrealized gain on investments	9,264,725	-0-	-0-	9,264,725
Loss on derivative	(2,456,025)	-0-	-0-	(2,456,025)
Change in minimum pension obligation	(12,517,562)	-0-	-0-	(12,517,562)
Effect of adoption of recognition provisions of FAS 158 on defined benefit plans	(7,065,889)	-0-	-0-	(7,065,889)
Minority Interest	-0-	-0-	279,360	279,360
Change in unrestricted net assets	24,603,615	(527,095)	(367,714)	23,708,806
Change in temporarily restricted net assets				
Change in interest in net assets of Foundation	3,333,165	-0-	-0-	3,333,165
Change in net assets	27,936,780	(527,095)	(367,714)	27,041,971
Net assets, beginning of year	444,498,841	2,821,538	(3,707,396)	443,612,983
Net assets, end of year	\$ 472,435,621	\$ 2,294,443	\$ (4,075,110)	\$ 470,654,954

See report of independent auditors on page 1.

REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATING BALANCE SHEETS DECEMBER 31, 2006

ASSETS				
	Hospital	Reid MOB	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 7,394,651	\$ 1,965,324	\$ -0-	\$ 9,359,975
Patient accounts receivable, net	37,492,870	-0-	-0-	37,492,870
Inventories, prepaid expenses and other receivables	4,544,910	22,477	-0-	4,567,387
Total current assets	49,432,431	1,987,801	-0-	51,420,232
Investments				
Board designated - capital replacement and improvement	308,436,683	-0-	-0-	308,436,683
Held by trustee	63,144,253	-0-	-0-	63,144,253
Total investments	371,580,936	-0-	-0-	371,580,936
Property and equipment				
Costs	217,753,734	25,218,451	(885,858)	242,086,327
Less accumulated depreciation	60,385,382	-0-	-0-	60,385,382
Net property and equipment	157,368,352	25,218,451	(885,858)	181,700,945
Interest in net assets of Foundation	19,299,427	-0-	-0-	19,299,427
Other assets	48,654,804	-0-	(26,009,407)	22,645,397
Total assets	\$ 646,335,950	\$ 27,206,252	\$ (26,895,265)	\$ 646,646,937
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 7,338,256	\$ 214,809	\$ (203,825)	\$ 7,349,240
Salaries, wages and related liabilities	9,158,936	-0-	-0-	9,158,936
Estimated third-party payor settlements	3,037,769	-0-	-0-	3,037,769
Total current liabilities	19,534,961	214,809	(203,825)	19,545,945
Derivative liability	1,642,148	-0-	-0-	1,642,148
Long-term debt, less current portion	180,660,000	24,169,905	(24,169,905)	180,660,000
Total liabilities	201,837,109	24,384,714	(24,373,730)	201,848,093
Minority interest	-0-	-0-	1,185,861	1,185,861
Net assets				
Unrestricted	425,199,414	2,821,538	(3,707,396)	424,313,556
Temporarily restricted	19,219,437	-0-	-0-	19,219,437
Permanently restricted	79,990	-0-	-0-	79,990
Total net assets	444,498,841	2,821,538	(3,707,396)	443,612,983
Total liabilities and net assets	\$ 646,335,950	\$ 27,206,252	\$ (26,895,265)	\$ 646,646,937

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REID HOSPITAL & HEALTH CARE SERVICES, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2006

	Hospital	Reid MOB	Eliminations	Total
Unrestricted activities				
Net patient care service revenue	\$ 209,426,305	\$ -0-	\$ -0-	\$ 209,426,305
Other revenues	4,876,601	8,586	-0-	4,885,187
Total revenues	214,302,906	8,586	-0-	214,311,492
Expenses				
Salaries, wages and benefits	90,912,180	-0-	-0-	90,912,180
Professional fees and supplies	46,747,440	-0-	-0-	46,747,440
Facility costs, depreciation and other	39,636,368	54,005	-0-	39,690,373
Provision for bad debts	17,997,104	-0-	-0-	17,997,104
Interest and amortization	109,818	-0-	-0-	109,818
Total expenses	195,402,910	54,005	-0-	195,456,915
Net operating income (loss)	18,899,996	(45,419)	-0-	18,854,577
Nonoperating investment and other income	5,328,368	83,350	(907,850)	4,503,868
Net income	24,228,364	37,931	(907,850)	23,358,445
Other changes in unrestricted net assets				
Net assets released from restrictions	46,728,501	-0-	-0-	46,728,501
Net unrealized gain on investments	14,403,166	-0-	-0-	14,403,166
Gain on derivative	1,738,921	-0-	-0-	1,738,921
Minority interest	-0-	-0-	(15,939)	(15,939)
Change in unrestricted net assets	87,098,952	37,931	(923,789)	86,213,094
Change in temporarily restricted net assets				
Net assets released from restrictions	(45,774,861)	-0-	-0-	(45,774,861)
Change in interest in net assets of Foundation	2,432,755	-0-	-0-	2,432,755
Change in temporarily restricted net assets	(43,342,106)	-0-	-0-	(43,342,106)
Change in net assets	43,756,846	37,931	(923,789)	42,870,988
Net assets, beginning of year	400,741,995	2,783,607	(2,783,607)	400,741,995
Net assets, end of year	<u>\$ 444,498,841</u>	<u>\$ 2,821,538</u>	<u>\$ (3,707,396)</u>	<u>\$ 443,612,983</u>

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